

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: City of Warren, Michigan Police and Fire Health Benefit Plan	County Macomb
Audit Date December, 31 2005	Opinion Date June 2, 2006	Date Accountant Report Submitted To State: June 28, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

**Financial Report
with Supplementary Information
December 31, 2005**

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Contents

Report Letter	I
Management's Discussion and Analysis	2-3
Basic Financial Statements	
Statement of Plan Net Assets	4
Statement of Changes in Plan Net Assets	5
Notes to Financial Statements	6-8



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Independent Auditor's Report

To the Board of Trustees
City of Warren Police and Fire Retirement
Health Benefits Plan and Trust

We have audited the accompanying basic financial statements of the City of Warren Police and Fire Retirement Health Benefits Plan and Trust (a component unit of the City of Warren, Michigan) as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the City of Warren Police and Fire Retirement Health Benefits Plan and Trust. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the City of Warren Police and Fire Retirement Health Benefits Plan and Trust as of December 31, 2005 and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

June 1, 2006

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City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of two parts: (1) management's discussion and analysis (this section) and (2) basic financial statements. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Condensed Financial Information

The table below shows key financial information in a condensed format for the current year:

	2005	2004 *
Total assets	\$ 18,562,451	\$ 19,235,767
Total liabilities	3,819,276	2,515,482
Assets held in trust for retiree health benefits	<u>\$ 14,743,175</u>	<u>\$ 16,720,285</u>
Net investment gain	\$ 23,447	\$ 1,787
Employer contributions	\$ 4,237,700	\$ 2,165,437
Postemployment health care expenditures and medicare reimbursements	\$ 6,819,017	2,514,639
Expenditures paid in excess of contributions	\$ 2,581,317	349,202
Ratio of benefits paid to contributions	1.61	1.16
General and administrative expenses	\$ 12,879	\$ 843
Net increase (decrease) in net assets held in trust	\$ (1,977,110)	16,720,285

* Information represents activity for a six-month period.

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Management's Discussion and Analysis (Continued)

Overall Fund Structure and Objectives

The City of Warren Police and Fire Retirement Health Benefits Plan and Trust (the "Plan and Trust") exists to pay postemployment health care and related costs. Expenses currently being paid are significantly greater than contributions currently being received. The excess of benefits over contributions must be funded through investment income. The public capital markets represent the primary source of investments.

Investment Results

Funds are kept liquid in order to meet postemployment health care expenditures. Short-term money was deposited into a money market instrument yielding 4.0 percent. Two certificates of deposit were purchased yielding 4.3 percent and 4.6 percent.

During the year, the Plan and Trust hired an index manager for an asset allocation model of 60 percent equity index funds and 40 percent fixed income index funds. The managed index funds returned 1.78 percent for 2005.

Contacting the Plan and Trust's Management

This financial report is intended to provide our citizens, taxpayers, and investors with a general overview of the Plan and Trust's finances and to show the Plan and Trust's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Plan and Trust's office at 23295 Schoenherr, Warren, Michigan 48089, or (586)774-6564.

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Statement of Plan Net Assets December 31, 2005

Assets

Accrued interest and dividends receivable	\$ 45,508
Investments - Noncategorized:	
Short-term cash management funds	10,869
Mutual funds - Equities	10,975,932
Mutual funds - Fixed income	2,206,126
Certificates of deposit	<u>5,324,016</u>
Total investments	<u>18,516,943</u>
Total assets	18,562,451

Liabilities

Due to City of Warren - General Fund	3,774,923
Accounts payable	<u>44,353</u>
Total liabilities	<u>3,819,276</u>

Net Assets Held in Trust for Retiree Health Benefits	<u>\$ 14,743,175</u>
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City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Statement of Changes in Plan Net Assets Year Ended December 31, 2005

Additions

Interest and dividends	\$ 602,626
Employer contributions	4,237,700
Net appreciation in fair values of investments	23,447
Less interest expenses	<u>(8,987)</u>
Net additions	4,854,786

Deductions

Retirees' health care	6,544,584
Medicare reimbursements	274,433
Administrative expenses	<u>12,879</u>
Total deductions	<u>6,831,896</u>

Net Decrease (1,977,110)

Net Assets Held in Trust for Retiree Health Benefits

Beginning of year	<u>16,720,285</u>
End of year	<u><u>\$ 14,743,175</u></u>

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Notes to Financial Statements December 31, 2005

Note 1 - Significant Accounting Policies

The City of Warren Police and Fire Retirement Health Benefits Plan and Trust (the "Plan and Trust"), an irrevocable trust, is the administrator of a single-employer public employees' health and benefits plan that covers substantially all of the police and fire retirees of the City of Warren, Michigan. The financial statements of the Plan and Trust are also included in the combined financial statements of the City of Warren (the "City") as a fiduciary fund. The Plan and Trust was set up as a VEBA trust fund.

The board of trustees is made up of five individuals. Two trustees are appointed by the mayor. The police employees and the fire employees each have their own elected trustees. The city treasurer is also required by City ordinance to be a member of the board.

Basis of Accounting - The Plan and Trust's financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized as revenue in the period in which they are earned. Insurance and other costs are recognized when due and payable in accordance with the terms of the Plan and Trust.

Method Used to Value Investments - Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price.

Note 2 - Plan Description

The Plan and Trust provides health benefits to plan members and their beneficiaries. The obligation to contribute to and maintain the Plan and Trust for these employees was established by City ordinance and negotiation with the police and fire collective bargaining units. At December 31, 2005, membership consisted of 391 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 374 current active employees.

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Notes to Financial Statements December 31, 2005

Note 3 - Contributions

The funding policy provides for monthly employer contributions at the actuarially determined rate of 13.44 percent that, expressed as percentages of monthly covered payroll, is intended to accumulate sufficient assets to pay health benefits when due.

Administrative costs of the plan are financed through investment earnings.

Information regarding employer contributions as of December 31, 1997, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll
Remaining amortization period	30 years
Asset valuation method	6-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	5.0%-8.0%
* Includes inflation at	4.5%
Health care increase assumption	5%

Note 4 - Deposits and Investments

Investments - The Plan and Trust is authorized by Michigan Public Act 485 of 1996 to invest in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances, mutual funds, investment pools that are composed of authorized investment vehicles, certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

City of Warren Police and Fire Retirement Health Benefits Plan and Trust

Notes to Financial Statements December 31, 2005

Note 4 - Deposits and Investments (Continued)

The Plan and Trust's cash and investments are subject to several types of risk, which are examined in more detail below:

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan and Trust has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Index funds	\$ 2,206,126	Not rated	N/A

Note 5 - Risk Management

The Plan and Trust's exposure to risks of loss, other than investment market loss, is minimal. Exposure is limited primarily to errors and omissions. The Plan and Trust has commercial insurance for such claims.

June 28, 2006

Mr. Ronald Pollett
Deputy Secretary
Office of the Council - City of Warren
8300 Common Road
Warren, MI 48093

Dear Mr. Pollett:

Enclosed are 30 copies of the City of Warren Police and Fire Retirement Health Benefit Plan and Trust financial report for the year ended December 31, 2005.

Would you please see that the copies are distributed to members of the Council, the board of trustees, the Treasurer's Office, the Controller's Office, and the remainder of the financial statements should be distributed to Greg Suma.

Please call if you have any questions.

Very truly yours,

Plante & Moran, PLLC